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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Synthesis of proposals by Parties on principles, modalities, rules and guidelines

Note by the Chairmen

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PART TWO*

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PART THREE*

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PART FOUR*

GLOSSARY

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* Parts Two, Three and Four are contained in documents FCCC/SB/1999/INF.2/Add.1, FCCC/SB/1999/INF.2/Add.2 and FCCC/SB/1999/INF.2/Add.3, respectively.

I. INTRODUCTION

A. Mandate

1. The Conference of the Parties, at its fourth session (COP 4), by its decision 7/CP.4, adopted a work programme on the mechanisms under Articles 6, 12 and 17 the Kyoto Protocol with a view to taking decisions at its sixth session.

2. One element of this work programme is the request to the Chairmen of the subsidiary bodies, supported by the secretariat, to produce, based on submissions by Parties and bearing in mind linkages among the provisions relating to the mechanisms and other issues related to the Kyoto Protocol, a synthesis of proposals by Parties on matters addressed in paragraph 1 of decision 7/CP.4 for initial consideration by the subsidiary bodies at their tenth sessions.

B. Scope of the note

3. This note responds to the above mandate by organizing all the proposals on the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol, submitted by Parties in accordance with paragraph 2 of decision 7/CP.4, into a framework compilation. The proposals can be found in documents FCCC/SB/1999/MISC.3 and Add.1 (proposals submitted after the deadlines mentioned in decision 7/CP.4 will be issued in an addendum). The sources of the proposals are indicated in parentheses at the end of each excerpt. Excerpts are incorporated in alphabetical order by Party name (English language). They have been extracted from the original submissions and reproduced in this note without any alterations except those necessary for editorial purposes. Submissions in languages other than English have been unofficially translated.

4. The note is divided into three main sections, one for each of the three mechanisms. Within each section, excerpts have been organized under headings commonly found in the proposals by Parties. The three sections attempt to establish initial frameworks for presenting options regarding principles, modalities, rules and guidelines for each of the three mechanisms.

C. Possible action by the SBSTA and the SBI

5. Parties may wish to begin exchanging views on a heading-by-heading basis, in order to narrow the range of options and identify areas of convergence as well as issues which require further consideration and/or methodological work.

6. The SBSTA and the SBI may also wish to request the Chairmen to prepare a second synthesis of proposals for consideration by the eleventh sessions of the subsidiary bodies and the fifth session of the COP, taking account of discussions at the tenth sessions and incorporating further views to be submitted by Parties not later than 13 August 1999.

II. PROPOSED PROVISIONS UNDER ARTICLE 6 OF THE KYOTO PROTOCOL[1]

A. Objectives, principles, purpose

7. The Alliance of Small Island States (AOSIS) believes that the design of all three mechanisms (Articles 6, 12 and 17) should firmly rest on three basic design principles:

(a) Scientific and regulatory certainty;

(b) Environmental and cost-effectiveness; and

(c) Equity between Parties. **(AOSIS)**

8. These principles should be reflected in transparent, generally applicable and clearly stated modalities, rules and guidelines that allow participants, regulators and the public at large to understand and have confidence in the operation of each mechanism. **(AOSIS)**

9. All the Protocol mechanisms should be guided by the principle of equity (Article 3.1 of the Convention; Kyoto Protocol preamble), and should be considered in the context of Article 4.4, 4.8 and 4.9 of the Convention. Equity has a role to play in both the allocation of resources generated by the mechanisms, and in respect to procedural fairness. Generally, modalities, rules and guidelines should be designed to ensure that all Parties otherwise eligible to participate should have open access to the opportunities provided by the mechanisms. **(AOSIS)**

10. However, additional incentives need to be created to attract the participation of, and investment in, Parties that are often marginalized by purely market-based instruments. **(AOSIS)**

11. Transparency in the design and application of the mechanisms' rules and guidelines will be critical to achieving this access and equity. Participants, regulators and the public at large must be able to understand and have confidence in the system. **(AOSIS)**

12. AOSIS believes that robust institutions and procedures to develop, monitor and enforce these modalities, rules and guidelines will be essential to the effective operation of all the Protocol's mechanisms. **(AOSIS)**

13. It is recognized that institutional responsibilities will have to be divided, as appropriate, between new and existing bodies, at the global, regional and national levels, and, in certain circumstances, between the public and the private sector. This division of labour must be based on principles of representativeness, demonstrable competence and subsidiarity. **(AOSIS)**

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[1] Unless stated otherwise, all articles refer to the Kyoto Protocol.

14. AOSIS would not characterize the quantified emission limitation and reduction commitments as 'ambitious', since greater emission reduction commitments will undoubtedly be necessary to achieve the objective of Article 2 of the Convention. **(AOSIS)**

15. While the Protocol mechanisms may lead to substantial cost savings for some developed countries, AOSIS rejects any effort by Annex I Parties to tie their compliance with their obligations under Article 3 to the performance of what are largely untested mechanisms. AOSIS continues to endorse the conclusions of the IPCC which have identified substantial opportunities for Annex I countries to achieve reductions more ambitious than those set out in Annex B of the Protocol through cost-effective domestic actions. **(AOSIS)**

16. Although no group of countries would be more supportive of the prompt ratification of the Protocol, AOSIS questions the usefulness of the rapid entry into force of a Protocol which has not been properly designed. **(AOSIS)**

17. The mechanisms envisaged in the Kyoto Protocol have the dual objective of ensuring that emissions reduced through these mechanisms are achieved in a manner that is both cost-effective and environmentally effective. Costs will inevitably arise from the additional domestic, regional and international oversight necessitated by the complex nature of these mechanisms. Parties should resist the pressure to make false economies in the name of cost-effectiveness. Furthermore, transactional costs of ensuring transparency and accountability should not be sacrificed for the sake of cost-effectiveness. **(AOSIS)**

18. The Article 6 mechanism should contribute to environmental effectiveness by facilitating reductions of anthropogenic emissions by sources or enhancement of removals by sinks of greenhouse gases in a cost-effective manner. Therefore, the design of the Article 6 mechanism should be simple, transparent and minimize transaction costs. **(Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine and the United States of America)**

19. As regards the attainment of the objectives of the Framework Convention on Climate Change and its Protocol, flexible mechanisms are merely one contribution and one link in the chain among others. It follows that joint implementation (JI), the clean development mechanism (CDM) and tradable permits (TP) cannot be dealt with separately. The quality of the final outcome depends on a comprehensive and dialectical approach. In view of the decisions of COP 4 which require CDM to begin in the year 2000, the statements that follow will concern that mechanism in particular; for the sake of consistency and compatibility, they should, however, be taken into account in defining the other two mechanisms as well. **(Burkina Faso)**

20. The concept of "fungibility" among the three mechanisms of the Kyoto Protocol is totally unacceptable. **(China)**

21. Regarding developing country Parties, particularly those from Africa, emphasis should be placed on emissions avoidance rather than emissions reduction. For the purpose of Article 6, all Parties should have emissions entitlements to facilitate the reduction of anthropogenic

emissions of greenhouse gases as well as ensure that non-Annex I Parties can, if they so desire, utilize their entitlements to enhance sustainable development within the mechanisms. It is, therefore, necessary to reiterate that, for Annex I Parties, implementation of this Article re-supposes compliance with Articles 3, 5 and 7. **(The Gambia)**

22. The Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) provides for various mechanisms in Articles 6, 12 and 17. These mechanisms may be used by Annex B Parties to assist them in part in attaining their greenhouse gas quantified emission limitation and reduction commitments under Article 3. **(India)**

23. An objective of the ongoing process is to ensure that inequities do not get entrenched. On the other hand, inequities must be reduced with a view to eliminating them. This should guide the future deliberations from which will emerge the nature and scope of the various mechanisms in Articles 6, 12 and 17. **(India)**

24. The work programme and discussions have to make a comparison of the mechanisms proposed in Articles 6, 12 and 17. The differences and similarities between the mechanisms should be brought out. Such a comparison will also facilitate an outlining of the fundamental features of the mechanisms. For this purpose, the questions raised and issues identified by the Group of 77 and China at the subsidiary body meetings in Bonn during 2-12 June 1998 (see relevant Subsidiary Body Misc. documents of June 1998) must be addressed and elaborated upon. **(India)**

25. The Protocol has not created any asset, commodity or goods for transfer or exchange. No such assumption should be made. Neither does the Protocol create any title or entitlement. There is no provision for any concept related to inter-mechanism conveyances. **(India)**

26. Such precepts, which have the potential of constraining social and economic development and poverty eradication programmes in developing countries, must not be allowed . **(India)**

27. Historical emissions and inventories cannot bestow entitlements or any other rights of permanent benefits. **(India)**

28. The design of the mechanisms must not in any way compromise the modification of longer term trends in emissions, consistent with the objective of the Convention. The GHG reductions achieved should be real and verifiable. The mechanisms should be supplemental to domestic action. The importance of a compliance regime to ensure supplementarity is emphasized. A well defined process should commence for the elaboration of issues pertaining to compliance. **(India)**

29. There are methodological issues, such as determination of baselines and incrementality, that need to be addressed before the organizational and other operational matters are looked into. **(India)**

30. The three mechanisms need to be taken together and guided by the principles of equity, sound scientific backgrounds, environmental benefits and cost factors, as well as the shared broker principle. **(Mauritius)**

31. Parties eligible to participate must have easy access to the benefits provided by the mechanisms. Parties marginalized by solely market-based actions should be given extra incentives to attract investment. **(Mauritius)**

32. For the design and application of these mechanisms, transparency must be the keyword. Those involved with the mechanisms must be able to understand their involvement, and rules and guidelines must build up the confidence. **(Mauritius)**

33. Although clear priority should be given to the development of the clean development mechanism (CDM), we think that all mechanisms should be developed along comparable lines so that no competitive disadvantage for either of the mechanisms arises. The use of mechanisms through the countries listed in Annex B shall be supplemental to their domestic action. **(Sierra Leone)**

34. The rules and procedures for verification and certification should be the same for all flexible mechanisms in order to ensure their interchangeability. **(South Africa)**

35. The elaboration of modalities to deal with verification, certification and auditing undertaken for the CDM should be extended for use in the other flexible mechanisms. **(South Africa)**

36. The determination of baselines is an important aspect of project certification and, in view of difficulties around this issue, needs to be dealt with separately. **(South Africa)**

37. Linkages, *inter alia*, interchangeability should be ensured by requiring that units such as certified emission reductions (CERs), emission reduction units (ERUs) and CO_2-equivalent should be equivalent and interchangeable. **(South Africa)**

38. Consistency should be applied in auditing, verification, emissions reduction quantification, costing, trading, banking, etc. A consistent approach to CER and ERU trading, selling, banking and application is required in order to ensure exchangeability and no value distortion. In other words, the same institutional arrangements should apply. **(South Africa)**

39. Application of relevant principles. The following principles need to be considered in defining the details of the mechanisms: equity; redress; sustainability; balanced regional activity; focus on most vulnerable developing nations; polluter pays principle; fungibility; transparency; accountability; and consistency. **(South Africa)**

40. Nature and scope of the mechanisms. The mechanisms need to contribute to the overall objective of the UNFCCC without compromising sustainability, whilst facilitating global equity. All mechanisms need to play a role in meeting the UNFCCC objective. However, the complex

interactions need to be controlled and quantified to ensure appropriate behaviour. In particular the management of the outputs of the mechanisms requires careful thought. Some means of tracking the acquisition, trade, banking and application of CERs from CDM projects and ERUs developed under Articles 6 and 17 needs to be established. It is proposed that existing international entities undertake this task. Preference would be for existing entities to take on this task rather than contribute to the proliferation of international bodies. **(South Africa)**

41. Equity and transparency. The issue should not only be equity; there is also an issue of redress that is required. The mechanisms should promote the equitable allocation and consumption of global resources. **(South Africa)**

42. Equity in terms of the benefit of projects, access to projects and between non-Annex I Parties should be promoted. **(South Africa)**

43. Particular attention should be paid by the Conference of the Parties serving as the meeting of the Parties to the Protocol (COP/MOP) to this issue in its review of performance. The potential for the mechanisms to compromise global equity needs to be recognized. In particular the practice of developing countries trading low-cost mitigation options to wealthy developed countries, only for future generations to be left with the high-cost options, will merely sustain global inequity. As such, mechanisms need to be included in guidelines and procedures to avoid this problem. **(South Africa)**

44. Supplementarity. The mechanisms should be supplemental to domestic action. However, the extent of this supplementarity is dependent on the conditions attached to the mechanisms. If developing nations are able to bank credits and activities for long term application, the mechanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained. **(South Africa)**

45. Climate change effectiveness. The Intergovernmental Panel on Climate Change (IPCC) has already indicated that the current Kyoto targets would be inadequate to remedy any negative impacts. At the same time, it should be noted that the mechanisms will be required for all future emission reduction initiatives and as such do not only need to operate in meeting the Kyoto targets. In creating the mechanisms, the foundation for future activities is established. In evaluating climate change effectiveness through the CDM, the term reduction should be defined as reduction in increase of emissions rather than absolute reduction of emissions. Nevertheless, projects should have real, measurable and long-term benefits and effectiveness. **(South Africa)**

46. Institutional framework. The mechanisms need to operate as efficiently as possible. In this regard they should operate under normal business practices and be decentralized into individual nations where appropriate. Although a consistent mechanism needs to be established to handle CERs and ERUs, institutional arrangements for the management of the mechanisms should be flexible so as to accommodate national preferences. **(South Africa)**

47. Capacity-building. This should be an integral component of the application of the mechanisms and should include equitable capacity-building in all developing countries. **(South Africa)**

48. Adaptation. The negative impacts of climate change will have a negative impact long before mitigation measures are effective. As such, the approach to adaptation should take into account the vulnerability of countries in the following sectors: food security; energy security; disaster response; water security; flood prevention; biodiversity; spread of disease; and infrastructure development and enhancement, especially in building redundancy into infrastructures so as to make them more robust in meeting the variability associated with climate change. **(South Africa)**

49. Compliance. Use standard systems to measure compliance – with clearly defined interpretation of the targets set – indicating tons to be met over the Kyoto compliance period. The measure of compliance is then emissions over this period minus the total credits held by that Party. It is, therefore, clear that any Party with targets needs to put a system in place to track credits held in its territory, some form of central bank which tracks transactions in both CERs and ERUs. Penalties for non-compliance should be negotiated under Articles 12 and 17 rather than Article 18. **(South Africa)**

50. Linkages. The same standards should be applied to all mechanisms with respect to: units of measurement (tons of CO_2 equivalent) as applied to CERs and ERUs; verification and certification of reductions; global equity; and the total percentage of all three mechanisms which may be used as an offset against emission reduction targets. **(South Africa)**

51. The principle of primary and majority of reductions in the home country should be applied by default as the CDM develops. However, this provision should fall away if benefits to developing countries are long-term. Assurance of sustainability and non-exploitation - especially of developing countries banking, trading, selling and application of CERs and ERUs. **(South Africa)**

52. Inapplicability of Article 4.8 and 4.9 of the Convention and/or Articles 2.3 and 3.14 of the Kyoto Protocol to the mechanisms. The purpose of the CDM in addressing adaptation issues is based on a country's vulnerability to the effects of climate change as opposed to its vulnerability to the effects of implementing the Convention which is what is covered under Article 4.8 and 4.9 of the Convention. Adaptation in terms of the CDM needs to take account of vulnerability in the sectors listed in paragraph 48 above and the provisions of Articles 2.3 and 3.14. The Protocol needs to be implemented in a holistic way. It is, therefore, appropriate that Articles 2.3 and 3.14 are referred to when preparing rules. **(South Africa)**

53. Dependence of the ambitious environmental targets of the Kyoto Protocol upon the availability of mechanisms. The IPCC should be requested to define the extent to which the mechanisms could contribute to the Kyoto Protocol and future targets. In fact an opinion as to whether they could assist in stabilizing at 1990 levels and by when would be useful. **(South Africa)**

54. Importance of prompt decisions on workable mechanisms for ratification/entry into force. Unless substantive progress is made in the development of the rules and procedures necessary for the implementation of the Protocol very soon, the credibility of the Protocol and the Convention will be undermined amongst the nations of the world whose populations will have to consider lifestyle changes to achieve compliance with targets. The sooner the mechanisms are in place the better – especially for adaptation projects. As such, it is proposed that early implementation of mechanisms be defined urgently and be implemented using rules and procedures with agreement that they be reviewed on a regular basis. **(South Africa)**

55. Principle of cost-effectiveness. The principle of cost-effectiveness is supported only if it is applied holistically and in the long-term. The objective of the mechanisms should not be to achieve least-cost emission reductions. This is the primary intent of joint implementation – but not of the CDM. It should be recognized that developing nations should not be afforded the luxury of least-cost options, if the high-cost options are then left to their future generations. As such, the concept of cost-efficiency needs to be accompanied by some mechanism of credits for emission reductions in developing nations to be accrued by those nations for future application. **(South Africa)**

56. Role of mechanisms in promoting compliance. The mechanisms clearly increase flexibility. However they should not just be seen as low-cost options – they should contribute to sustainability and adaptation in the long term. They should also not be seen as the sole means of attaining compliance; domestic action is also critical. **(South Africa)**

57. Comparable treatment among Annex B Parties, whether using Articles 6, 12, 17 or other means to achieve their Article 3 commitments. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis, so that achievement of the commitment makes the most efficient use of all available mechanisms, of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does, however, need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time, and as changing technologies, development rates and cost structures present new opportunities. As such, some means of revising these allocations needs to be established. This can only be achieved if the value of the credits is comparable. In the case of the CDM, the fact that the mechanism would provide a percentage for adaptation should be built into the value, so that the value of these credits is not inferior to those from the other two mechanisms. **(South Africa)**

58. Maximizing the environmental benefits of mechanisms by assuring the lowest possible cost structures. Assuring lowest cost does not necessarily mean environmental benefits; often the opposite applies unless life-cycle costs, including externalities, are considered with an attendant increase in complexity. The mechanisms clearly increase flexibility – they should however not just be seen as low-cost options – they should contribute to sustainability and adaptation in the long-term. At the same the transaction costs of projects should be kept as low as possible. It should however be noted that this does not refer to the need to allocate proceeds to issues such as adaptation in the CDM. Transaction costs should be kept as low as possible by

ensuring optimum use of existing global institutional infrastructure and refraining from establishing significant new bureaucracies to manage the mechanisms. **(South Africa)**

59. Application of any quantification of "supplemental to domestic actions" to each individual State within a regional economic integration organization. Apply as per Annex B in the Kyoto Protocol. **(South Africa)**

60. Supplementarity (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria). This is understood to refer to the amount of emission reductions that may be achieved through the mechanisms. If quality is to be considered, then all emissions should be calculated as CO_2 corrected for global warming potential (GWP). Quantity should not be qualified in any way. **(South Africa)**

61. Linkages, *inter alia*, interchangeability. Units, such as CERs, ERUs and CO_2 equivalent, should be equivalent and interchangeable. Consistency should apply in auditing, verification, emissions reduction quantification, costing, trading, banking, etc. A consistent approach to CER and ERU trading, selling, banking and application is required in order to ensure exchangeability and no value distortion. New mechanisms should not be developed for such trading. The potential role of international commodity exchanges should be investigated for this purpose. **(South Africa)**

62. Prerequisites for the use of the mechanisms (compliance, linkage with Articles 5, 7, 8). Baselines need to be in place before mechanisms can be used. **(South Africa)**

63. The foundation should be set against which performance may be measured. The rules should require compliance with targets in accordance with the approach to be agreed. Once the inventories are in place and targets are rigorously quantified, the mechanisms should be applicable with a minimum of constraints. If problems are detected, the COP/MOP should identify and address them in a spirit of flexibility and learning. **(South Africa)**

64. Articles 2.3 and 3.14. Whilst these Articles are not specifically referred to in Articles 6, 12 and 17, in the interest of minimizing duplication of effort, the requirements of these articles should be considered in structuring initiatives around the mechanisms. The Protocol needs to be implemented in a holistic way. It is, therefore, appropriate that Articles 2.3 and 3.14 are referred to when preparing rules. **(South Africa)**

65. Other compliance-related issues. These are the same for all mechanisms and include: emission reduction quantification; life times of credits; ownership, trading, and banking; and application of credits against targets. **(South Africa)**

66. The Kyoto Protocol mechanisms (Article 6, joint implementation; Article 12, CDM; and Article 17, emissions trading) are all aimed at enabling the Parties to meet their commitments and achieve the ultimate objective of the Convention as spelt out in its Article 2. **(Togo)**

67. First and foremost agreement must be reached on the meaning to be given to certain key words which underpin these mechanisms. These are equity, transparency, complementarity or supplementarity and technology transfer, for which clear definitions are needed to remove all ambiguity and promote a climate of mutual understanding and speedy progress in the negotiations. **(Togo)**

68. It has emerged in the negotiations that these concepts are understood differently by the group of Annex I Parties and the group of non-Annex I Parties. **(Togo)**

69. We consider that all the flexibility mechanisms should be handled in a concerted manner, and not separately. It is obvious that the global approach of a single market for emissions trading in which all countries can participate modifies the order of the technical aspects to be settled. All the emission credit trading mechanisms must be subject to the same type of levy. **(Togo)**

70. Although the "Buenos Aires Plan of Action" focuses on a number of important points, the analyses and discussions on the mechanisms should move forward in a harmonious rather than a compartmentalized way. **(Togo)**

71. The climate change problem is a global one, and the fact that responsibilities are common but differentiated means that the non-Annex I Parties should not be confined solely to the debate on the CDM designed for them, while the Annex I Parties work together and devise structures for the other mechanisms (activities implemented jointly, emissions). **(Togo)**

72. Togo is convinced that the world market for emissions trading involves everyone and that the Kyoto Protocol flexibility mechanisms are by no means the solution to the problems of climate change. **(Togo)**

73. The effectiveness of the flexibility mechanisms rests on the commitment of the Annex I Parties to pursue all the domestic policies and measures needed to comply with their commitments under the Convention and the Protocol. The Buenos Aires Plan of Action provides no indication as to the means of demonstrating progress as stipulated in Article 3.2 of the Protocol. These indicators therefore need to be examined before the year 2000. **(Togo)**

74. Each of the flexibility mechanisms rests on market principles, i.e. on trading emission rights for cash. The success of the flexibility mechanisms will depend on the drawing up of rules of allocation, which, on grounds of equity and transparency, should be based on the principle of an equal right for each individual on the planet, whether he or she falls under Annex I or not. **(Togo)**

75. Uganda believes that the design of the flexible mechanisms must be based on strong global environmental benefits and sustainable development principles, taking into account equity and transparency considerations. The design of the three flexible mechanisms should also take into account simplicity, transparency and easy-to-apply procedures to ensure successful implementation of the flexible mechanisms and attainment of global environmental benefits. **(Uganda)**

76. The CDM shall operate in a mixed mode, that is, multilateral, bilateral as well as a fund. Irrespective of the form the CDM takes, the same rules, procedures and principles must be applied to the other flexible mechanisms, where applicable, to ensure credibility and quality of the credits. **(Uganda)**

77. The design of the CDM and implementation modalities of the other two flexible mechanisms must be based on equity principles to ensure fairness to all humans now and for generations to come. The present generation should not and must not continue to deprive the future generations. The imbalance between the present generations and future generations must be addressed. It is equally very important to address the environmental and social imbalances. In attempting to address the present imbalances, the principle of equity must be applied to ensure equitable distribution of resources under the flexible mechanisms. Due consideration must be given to the following:

(a) Inter- and intra-generation;

(b) North to North;

(c) North to South;

(d) South to South;

(e) Within subregions.

The principle of equity can only be seen to be applied if the process of implementing the three flexible mechanisms is transparent to all Parties and interested Parties including the private sector. The rules of the game must be laid down on the table in simple and clear language. Developing country Parties, particularly the African Parties, must be assisted to build capacity to ensure that transparent and simple rules are developed at the national level. **(Uganda)**

78. The principle of cost-effectiveness should not be viewed from the window of the developed country Parties but from a holistic viewpoint. The market forces are not perfect and therefore if left to the market forces, cost-effectiveness will be biased towards the investor. In order to accommodate the views of developing country Parties, the so-called market forces must be regulated. This again calls for transparency in the design of the modalities and procedures for implementing the flexible mechanisms. **(Uganda)**

79. The establishment of the flexible mechanisms of the Kyoto Protocol presupposes the deepening of the Parties' co-operation in the fulfillment of their obligations and the improvement of the effectiveness of the national activities. Such co-operation can be carried out on the basis of partnership, understanding of the national ecological and economical problems, and absence of discrimination; and can be strengthened by the participation of the donor governments and governments-investors. **(Uzbekistan)**

80. Simple, effective and clear rules should guide these mechanisms. Such rules should be credible and agreed upon. Nothing in the documents on these mechanisms should be treated as to diminish or damage the responsibilities and duties of Annex I Parties in accordance with the Convention. **(Uzbekistan)**

81. The framework and function of all three mechanisms should be clearly identified to guarantee the confidence of governments, agencies, and the investors involved, in the interest of their participation in the activities on such mechanisms, and of additional financing from the state and private sector. **(Uzbekistan)**

B. Role of the COP/MOP

82. The global framework must be presided over by the COP/MOP, as the supreme body of the regime, and any smaller bodies authorized to carry out executive functions on the COP/MOP's behalf must have a membership that reflects the unique representational balance established by the practice of the Parties (such as the COP Bureau). **(AOSIS)**

83. AOSIS strongly supports the principle that arrangements made among subsets of Parties, including within regional economic integration organizations, should be subject to the oversight of, and be accountable to, the COP/MOP. **(AOSIS)**

84. [...][2] **(Germany on behalf of the European Community and its member States and Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Poland and Slovenia)**

85. Role of the Conference of the Parties serving as the meeting of the Parties to the Protocol, the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for implementation. The COP should define general policy, procedures, methodologies and mechanism for tracking of ERUs. The COP also has a review function, and approves of changes to policy, procedures and methodology. **(South Africa)**

C. Parties

86. AOSIS believes that the capacity must be demonstrated as a prerequisite for participating in the mechanisms, and that resources should be made available to eligible Parties to meet the costs of building such capacity. **(AOSIS)**

87. Article 6.1 (b) requires that "Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur." Noting Article 6.1 (b), guidelines should be further elaborated, taking into account the following possible situations:

(a) The transferring Party is in compliance with its obligations under Article 5 and 7;

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[2] Text will be provided at a later stage.

(b) The transferring Party is found to be out of compliance with its obligations under Articles 5 or 7. **(Australia et al.)**

88. Under Article 6, a Party may acquire emission reduction units provided that "it does not acquire any emission reduction units if it is not in compliance with its obligations under Articles 5 and 7" (Article 6.1. (c)). **(Australia et al.)**

89. Regarding developing country Parties, particularly those from Africa, emphasis should be placed on emissions avoidance rather than emissions reduction. For the purpose of Article 6, all Parties should have emissions entitlements to facilitate the reduction of anthropogenic emissions of greenhouse gases as well as to ensure that non-Annex I Parties can, if they so desire, utilize their entitlements to enhance sustainable development within the mechanisms. It is, therefore, necessary to reiterate that, for Annex I Parties, implementation of this Article presupposes compliance with Articles 3, 5 and 7. **(The Gambia)**

90. Parties included in Annex I to the Convention shall only transfer or acquire emission reduction units (ERUs) from a project under Article 6 if they:

(a) Have ratified the Kyoto Protocol;

(b) Are bound by a compliance regime adopted by COP/MOP;

(c) Have not been excluded from participation in joint implementation according to the procedures and mechanisms under the above-mentioned compliance regime; and

(d) Are in compliance with their commitments under Article 12 of the Convention. **(Germany et al.)**

91. A Party included in Annex I shall only acquire emission reduction units resulting from project activities under Article 6 to contribute to compliance with its quantified emission limitation and reduction commitments under Article 3, if the Party is in compliance with its commitments under Articles 5 and 7. **(Germany et al.)**

92. In accordance with Article 3.10, any ERUs from a verified joint implementation project which a Party acquires from another Party in accordance with the provisions of Article 6 shall be added to the assigned amount for the acquiring Party. **(Germany et al.)**

93. In accordance with Article 3.11, any ERUs from a verified joint implementation project which a Party transfers to another Party in accordance with the provisions of Article 6 shall be subtracted from the assigned amount for the transferring Party. **(Germany et al.)**

94. Parties included in Annex I shall report annually on their projects under Article 6 within the framework of their reporting commitments under Article 7.1 and 7.2. Reporting under joint implementation will follow the guidelines to be developed under Article 7.4. **(Germany et al.)**

95. Parties involved in joint implementation projects shall also report in their national communications on such projects. **(Germany et al.)**

96. Considering that the mechanisms constitute a voluntary and cost-effective modality for Annex I Parties to reduce their emissions, they can benefit from the use of the mechanisms only if they are in compliance with the reduction commitments established under the Convention as well as in the Kyoto Protocol. **(Peru)**

97. Verification and auditing entities are to be defined by the COP/MOP or as delegated by the COP/MOP but should include private sector entities. **(South Africa)**

98. The COP/MOP should carefully track the potential for distortion of competition and include standard checks in the guidelines. **(South Africa)**

99. Prerequisites for the use of Article 6 (compliance, linkage with Articles 5, 7 and 8). The foundation should be set against which performance may be measured. Once the inventories are in place and targets are rigorously quantified, the mechanism should be applicable with a minimum of constraints. Meaningful progress in domestic action could be considered as a prerequisite, but this would require careful definition. If problems are detected, the COP/MOP should identify and address them in a spirit of flexibility and learning. **(South Africa)**

100. Switzerland believes that, for each of the three Kyoto Protocol mechanisms, there is a need for independent validation/certification. Under Article 6, each project must be validated to ensure that it meets the project eligibility criteria and has a baseline that meets agreed standards, and the resulting emission reductions must be certified after they have occurred. The same basic validation/certification requirements generally hold true for Article 12 as well. Under Article 17, the national systems for the preparation of emission inventories must be validated[3] to conform with the guidelines to be decided upon by the COP/MOP and, in the case that legal entities are authorized to participate in emissions trading, national systems for accurate tracking and accountability of trading activities by legal entities must also be validated to ensure that they meet the requirements to be specified under the rules for Article 17. Furthermore the amount of excess parts of assigned amount (PAA) units available to a Party must be certified and certificates issued annually (assuming a post-verification trading system as described below). **(Switzerland)**

101. Building on existing know-how and institutions, the generally local independent "operational entities" (borrowing the terminology from the Kyoto Protocol for the CDM) could be accredited to perform the necessary validations/certifications by existing national or regional accreditation authorities designated by the COP/MOP. In the case of the CDM, Article 12.5 states that the operational entities are to be designated by the COP/MOP, but this "designation" could occur via national/regional accreditation authorities to avoid an administrative bottleneck.

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[3] It is essential for the credibility of the emissions trading system that national emission inventory systems/data be validated by an accredited independent instance. Otherwise there is huge room for falsification of inventory data, since uncertainties of 50-100 per cent or more are not uncommon.

Discussion of this and other possible approaches would be welcome at the upcoming sessions of SBSTA/SBI. For the other mechanisms, operational entities are not explicitly mentioned, but will be needed if validation/certification is required, as proposed above. **(Switzerland)**

102. Operational entities must be accredited by designated national/regional authorities to perform validation/certification on the basis of a set of protocols (or standards) for validation or certification. These validation and certification protocols must be adopted by the COP/MOP. In the case of emissions trading and joint implementation, the secretariat might be given task of actually issuing certificates based on the certification report by the operating entity, whereas this task might be performed by the executive board under the CDM. **(Switzerland)**

103. If such a system is established, it would only apply to those Parties that choose to engage in the Kyoto Protocol mechanisms, and would have to be linked to the entire system for measurement, reporting, review and compliance under the Protocol (including the expert review process under Article 8, which applies only to Annex I countries). The review process in Article 8.1 and the expert reviews under Article 8.2 might be used to spot-check the performance of the operational entities acting in those Annex I Parties engaging in joint implementation, CDM or emissions trading. The Article 8 reviews, however, could not replace the verification/certification process for the Kyoto Protocol mechanisms **(Switzerland)**

D. Legal entities

104. Article 6 also provides that "A Party included in Annex I may authorize legal entities to participate, under its responsibility, in actions leading to the generation, transfer or acquisition under this Article of emission reduction units."(Article 6.3.) **(Australia et al.)**

105. Legal entities can participate in joint implementation with the approval of the Parties involved in such projects. Participation of legal entities in projects resulting from Article 6 projects does not affect the responsibility of Parties included in Annex I for the fulfilment of their commitments under the Kyoto Protocol. **(Germany et al.)**

106. [...][4] **(Germany et al.)**

107. Any legal entity should be able to acquire, bank, sell and transfer ERUs like any other marketable commodity. **(South Africa)**

108. Authorization of legal entities should be at the discretion of individual national governments and registered as operational entities. **(South Africa)**

109. Involvement of legal entities should be defined in the guidelines. Generally the entities should be defined by participating governments at their discretion. Verification and auditing

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[4] Text will be provided at a later stage.

entities should be defined by COP/MOP, or as delegated by COP/MOP. These should include private sector entities. **(South Africa)**

E. Operational entities

110. Independent entities shall validate each project under Article 6 upon request of a project participant. Such entities shall be institutionally and economically independent from, and not entitled to participate in, the identification, project development or project financing of any joint implementation project. **(Germany et al.)**

111. Independent entities should publish their decisions on the validation of projects in a suitable manner. **(Germany et al.)**

112. Independent entities shall certify the emission reductions resulting from a validated project upon request of a project participant. Independent entities shall be institutionally and economically independent from, and not entitled to participate in, the identification, project development or project financing of any joint implementation project. **(Germany et al.)**

113. Independent entities shall inform the applicant of their decision in writing immediately after the completion of the certification process. **(Germany et al.)**

114. Independent entities publish their decisions on the certification of emission reductions in a suitable manner. **(Germany et al.)**

115. [...][5] **(Germany et al.)**

116. Trade in both CERs and ERUs needs to be tracked. International commodity exchanges, central banks or other similar organizations should be registered as operational entities to track, broker and bank ERUs and CERs. **(South Africa)**

F. Initiation

117. Starting date for Article 6 projects. It should be congruent with both CDM and emissions trading. This is essential in order to balance efforts across the mechanisms as well as to ensure consistency in the treatment of CERs and ERUs. **(South Africa)**

G. Project eligibility

118. Article 6.1(a) requires that "Any such project has the approval of the Parties involved." **(Australia et al.)**

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[5] Text will be provided at a later stage.

119. Article 6.1(b) requires that "Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur." **(Australia et al.)**

120. Noting Article 6.1(b), guidelines should be further elaborated, taking into account the following possible situations:

(a) The transferring Party is in compliance with its obligations under Articles 5 and 7;

(b) The transferring Party is found to be out of compliance with its obligations under Articles 5 or 7. **(Australia et al.)**

121. Validation is the binding assessment by an independent entity upon request of a project participant that a specific project under Article 6 meets the requirements laid down in the guidelines for joint implementation, in the Kyoto Protocol and in the Convention. A project needs to be validated before emission reductions resulting from that project may be certified. **(Germany et al.)**

122. Independent entities shall validate the project under Article 6 upon request of a project participant. Such entities shall be institutionally and economically independent from, and not entitled to participate in, the identification, project development or project financing of any joint implementation project. **(Germany et al.)**

123. A project shall be validated only if it meets all of the following requirements:

(a) The project has the approval of the Parties involved.

(b) All legal entities involved in the project demonstrate that they are entitled to participate in joint implementation according to paragraph 104 above.

(c) The project participants provide a determination of baselines to the independent entity in accordance with an appendix on baselines (to be elaborated) upon which the environmental additionality of the project is calculated. It must be demonstrated that the emission reductions from the project are real, measurable and long-term and that the emissions occurring with the project are lower than the emissions that would have occurred in the absence of the project. The latter are the baseline for the project and shall be determined according to the guidance provided for in the appendix on baselines.

(d) The project participants provide information to the independent entity on their procedures for accurate, systematic and periodic monitoring of the project in accordance with the guidance provided for in an appendix on monitoring (to be elaborated).

(e) Independent entities publish their decisions on the validation of projects in a suitable manner. **(Germany et al.)**

131. Assessment of additionality. Project by project. Emission reductions should be defined against the baseline. **(South Africa)**

132. Real, measurable and long-term environmental benefits – as defined in Article 6. Environmental additionalities should be noted in project structures, but they do not require any specific actions. **(South Africa)**

133. Additionality may be determined against the intent expressed in national communications. **(South Africa)**

134. Environmental additionality

(a) CDM and joint implementation (JI) projects must lead to concrete, verifiable and certifiable greenhouse gas (GHG) reductions, avoidance or sequestration.

(b) Annex I Parties shall not convert ongoing projects into CDM/JI projects.

(c) Funds accruing from emissions trading must be used by recipient Parties to mitigate GHG emissions so as to ensure global environmental benefit. **(Uganda)**

H. Sequestration

135. Outcome of methodological work on Article 3.3 and 3.4. The clarification of land-use/ forestry/sinks issues needs to be fed into the CDM guidelines and procedures. The inclusion of sinks is supported, subject to rigorous methodologies for sink quantification and the respective timelines being established. **(South Africa)**

I. Technology transfer

136. It is also believed that the mechanisms will play a key role in the transfer of resources and technology between the private sectors (of all Parties)in the future reductions of GHG. **(Mauritius)**

J. Project monitoring

137. The project participants provide information to the independent entity on their procedures for accurate, systematic and periodic monitoring of the project in accordance with the guidance provided for in the appendix on monitoring. **(Germany et al.)**

138. The applicant submits the necessary monitored data proving that:

(a) The project has resulted in additional emission reductions by sources, or an additional enhancement of removals by sinks;

(b) These emission reductions or enhancements of removals by sinks are real, measurable and long-term. **(Germany et al.)**

139. Monitoring should take place according to standard practice against standards and methodologies to be developed. **(South Africa)**

K. Definition of emission reduction unit (ERU)

140. AOSIS has repeatedly stressed that any modalities, rules and guidelines developed for the Protocol's mechanisms must aim to ensure, as their primary objective, that combined emission reduction obligations as reflected in Annex B are not undermined. This requires the setting of rules that ensure the effective equivalence in quality of any parts of assigned amount (PAA), emission reduction units (ERUs) and certified emissions reductions (CERs) that are allowed to be exchanged through the mechanisms of the Protocol. **(AOSIS)**

141. AOSIS believes that in order to preserve the environmental effectiveness of the commitments agreed in the Kyoto Protocol, Parties should be able to exchange parts of assigned amount only under circumstances in which the emissions reductions involved meet standard and harmonized criteria. Any PAA, CER or ERU entering into the system should be clearly identified by its emissions value, date and country of origin. The value of any allowance or offset traded should depend on the ability of the issuer of the allowance or offset to demonstrate the genuineness of the emissions reductions it represents. **(AOSIS)**

142. Emission reduction units shall be denominated in units of one metric ton of carbon dioxide equivalent (calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5). **(Australia et al.)**

143. Each emission reduction unit shall be identified by a unique serial number that includes the Party of origin, the timing of issuance, and a project identifier. **(Australia et al.)**

144. The Party in which the project site is located shall issue emission reduction units and transfer them to Parties and/or authorized legal entities participating in the project. Emission reduction units shall be distributed among the project participants according to their agreement. **(Australia et al.)**

145. Article 3.10. and 3.11. states [emphasis added];

- Any **emission reduction units** or any part of an assigned amount which a Party acquires from another Party in accordance with the provisions of **Article 6** or of Article 17 shall be added to the assigned amount for the acquiring Party.

- Any **emission reduction units** or any part of an assigned amount which a Party transfers to another Party in accordance with the provisions of **Article 6** or of Article 17 shall be subtracted from the assigned amount for the transferring Party. **(Australia et al.)**

146. The concept of "fungibility" among the three mechanisms of the Kyoto Protocol is totally unacceptable. **(China)**

147. Certification is the binding assessment by an independent entity upon request of a project participant of how many additional, real, measurable and long-term emission reductions have resulted from a validated project. The certification process concludes with the issuing of certificates for these emission reductions. **(Germany et al.)**

148. Independent entities shall certify the emission reductions resulting from a validated project upon request of a project participant. Independent entities shall be institutionally and economically independent from, and not entitled to participate in, the identification, project development or project financing of any joint implementation project. **(Germany et al.)**

149. Additional emission reductions resulting from a project shall be calculated on the basis of the baselines set up according to paragraph 121 (c) above. They shall be certified after they have occurred, only if:

(a) A participant of the project applies for the certification of the emission reductions resulting from the project during a specific period of time;

(b) The project has been validated and continues to meet the requirements under paragraph 119 above;

(c) All Parties involved are entitled to participate in joint implementation according to paragraph 90 above;

(d) The applicant submits the necessary monitored data proving that the project has resulted in additional emission reductions by sources, or an additional enhancement of removals by sinks; and

(e) These emission reductions or enhancements of removals by sinks are real, measurable and long-term. **(Germany et al.)**

150. Emission reductions shall be denominated in emission reduction units (ERUs). One ERU shall be equal to one metric ton of CO_2-equivalent emissions calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.3 **(Germany et al.)**

151. Issued certificates shall contain the following information and data:

(a) The project and the project participants, including the Parties involved;

(b) The number of emission reduction units that have resulted from the project and their serial numbers. **(Germany et al.)**

152. Each ERU shall have a unique serial number that reflects the project, country of origin, the year of certification and the certifying independent entity. **(Germany et al.)**

153. Independent entities shall inform the applicant of their decision in writing immediately after the completion of the certification process. **(Germany et al.)**

154. Independent entities publish their decisions on the certification of emission reductions in a suitable manner. **(Germany et al.)**

155. CERs may be defined as the verified reduction in emissions achieved against a specific project baseline, as a function of time. The CER may also include variable emission reductions over time, eg. xxx tons of CO_2-equivalent per annum for yyy years and zzz tons of CO_2-equivalent for aaa years. **(South Africa)**

156. CERs relate only to CDM projects. They need to be equated with emission reduction units. It is proposed that CERs become ERUs when an entity or individual intends applying them against emission reduction targets such as those established under the Kyoto Protocol. **(South Africa)**

157. Trade in both CERs and ERUs needs to be tracked by a mechanism – possibly the CDM Agencies, national central banks or other agencies, as identified by the respective governments. **(South Africa)**

158. It is clear that the measures should be equivalent, and interchangeability across mechanisms is supported subject to boundary conditions not being exceeded. Criteria for exchange across mechanisms should be established, for example the transformation of CERs to ERUs or ERUs accessed via emissions trading as opposed to joint implementation projects. **(South Africa)**

L. Verification of reductions achieved

159. Participants in any transaction must be able to demonstrate the genuineness of any allowance or offset before it can be added to, or subtracted from, an assigned amount. **(AOSIS)**

160. AOSIS believes that the effective operation of the mechanisms and the procedures under the Protocol for reporting, monitoring and verification are inextricably inter-linked. Before an emissions reduction unit generated in any Party can be offset against any part of an amount assigned to any other Party, the rules adopted under Articles 4, 6, 12 and 17 for verification, reporting and accountability must provide a basis for demonstrating that the regulatory mechanisms in place in both Parties are effective. **(AOSIS)**

161. The rules for verification, reporting and non-compliance and accountability should either be harmonized between the participating States at the domestic level, or the intervention of regional or international rules with equivalent 'bite' will be necessary. Furthermore, because there will be a shared global interest of all Parties to ensure that arrangements between two or more Parties are jointly achieving the relevant part of an assigned amount, the Protocol must provide multilateral oversight to ensure verification, reporting and accountability. **(AOSIS)**

162. Reporting and verification of projects are critical to ensure environmental effectiveness. In this regard, we propose partial decision text in paragraphs 161 and 162 below, but note that further elaboration of the guidelines is needed.
(Australia et al.)

163. Each Party involved in a project under Article 6 shall include in its annual report to the secretariat under Article 7 information, in a standard format, *inter alia*, on:

(a) Transfers and acquisitions of emission reduction units during that year, including, for each unit, the serial number and the Party's registry to which it was transferred, or from which it was acquired;

(b) Any emission reduction units (identified by serial number) that have been retired that year. **(Australia et al.)**

164. The information submitted to the secretariat shall be reviewed in accordance with Article 8 and its guidelines and made public by the secretariat. **(Australia et al.)**

165. To clarify the joint implementation process envisioned by the European Community and its member States, and Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Poland and Slovenia, the following terms in the set of guidelines shall be understood as follows:
(Germany et al.)

166. Verification encompasses:

(a) Validation of a joint implementation project: an assessment that a specific project under Article 6 meets the requirements laid down in the guidelines for joint implementation, in the Kyoto Protocol and in the Convention; and

(b) Certification of emission reductions: an assessment of how many additional, real, measurable and long-term emission reductions have resulted from the joint implementation project. **(Germany et al.)**

167. Verification and reporting – according to normal certification practice against standards and methodologies to be developed by the COP/MOP. **(South Africa)**

168. Guidelines for monitoring, reporting, verification – according to normal certification practice against standards and methodologies to be developed by the COP/MOP. **(South Africa)**

169. Reporting – to be included in national communications as well as by the entity managing trades. Discuss Frequency. **(South Africa)**

170. Switzerland believes that, for each of the three mechanisms under the Kyoto Protocol, there is a need for independent validation/certification. **(Switzerland)**

171. Under Article 6, each project must be validated to ensure that it meets the project eligibility criteria and has a baseline that meets agreed standards, and the resulting emission reductions must be certified after they have occurred. **(Switzerland)**

M. Certification of emission reductions

172. To clarify the joint implementation process envisioned by the European Union and its member States, and Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Poland and Slovenia, the following terms in the set of guidelines shall be understood as follows: **(Germany et al.)**

173. Verification encompasses:

(a) Validation of a joint implementation project: an assessment that a specific project under Article 6 meets the requirements laid down in the guidelines for joint implementation, in the Kyoto Protocol and in the Convention; and

(b) Certification of emission reductions: an assessment of how many additional, real, measurable and long-term emission reductions have resulted from the joint implementation project. **(Germany et al.)**

174. Independent certification and verification – according to normal certification practice against standards and methodologies to be developed by the COP/MOP. **(South Africa)**

175. Certification of emission reductions – according to normal certification practice against standards and methodologies to be developed by the COP/MOP. **(South Africa)**

176. For this mechanism, operational entities are not explicitly mentioned, but will be needed if validation/certification is required. **(Switzerland)**

177. Operational entities must be accredited by designated national/regional authorities to perform validation/certification on the basis of a set of protocols (or standards) for validation or certification. These validation and certification protocols must by adopted by the COP/MOP. In the case of emission trading and joint implementation, the secretariat might be given the task of actually issuing certificates based on the certification report by the operating entity, whereas this task might be performed by the executive board under the CDM. **(Switzerland)**

N. Registry

178. Tracking the generation, transfer and acquisition of emission reduction units will be necessary to verify the compliance of Parties with their respective targets. **(Australia et al.)**

179. A Party should establish a national registry. To simplify tracking and reporting requirements of various Kyoto Protocol mechanisms, a Party might choose to use one registry for more than one mechanism. **(Australia et al.)**

180. A Party involved in a project under Article 6 shall maintain a national registry. A Party's national registry shall contain records on holdings, transfers, and acquisitions of emission reduction units. **(Australia et al.)**

181. Information held by the registry shall be publicly accessible. **(Australia et al.)**

182. Any two or more Parties may voluntarily maintain their registries in a consolidated system within which each registry would remain legally distinct. **(Australia et al.)**

183. Transfers and acquisitions of emission reduction units shall be made by removing units (identified by serial number) from the registry of the transferring Party and adding them to the registry of the acquiring Party. **(Australia et al.)**

184. An emission reduction unit used by a Party to meet its obligation under Article 3.1 shall be retired by that Party, in which case such a unit may not be further used; a record of all retired emission reduction units shall be kept by each Party in its registry. **(Australia et al.)**

185. Issued certificates shall contain the following information and data:

(a) The project and the project participants, including the Parties involved

(b) The number of emission reduction units that have resulted from the project and their serial numbers **(Germany et al.)**

186. Each ERU shall have a unique serial number that reflects the project, country of origin, the year of certification and the certifying independent entity. **(Germany et al.)**

187. The secretariat shall keep a register of ERUs accessed and their allocations. The CDM agencies could play a role in tracking ownership and separate CER and ERU trading or tracking entities should be established based on existing entities. An electronic tracking system, without which the deal cannot be considered legitimate, should be developed. Access to this system could be limited except for CDM agencies who have the right to register "trades". **(South Africa)**

188. Any legal entity should be able to acquire, bank, sell and transfer ERUs like any other marketable commodity. A mechanism does, however, need to be put in place to determine who holds valid ERUs at any one time – both to track the performance of the mechanism as well as to define compliance with targets such as targets under the Kyoto Protocol. This entity may be a national central bank or similar organization. For developing nations this would typically only apply to the CDM; however, developed nations would also need to include ERUs developed under Articles 6 and 17. **(South Africa)**

O. International reporting

189. [...][6] **(Germany et al.)**

P. Relationship to the activities implemented jointly pilot phase

190. Lessons learnt in the activities implemented jointly (AIJ) pilot phase should be captured and used as the basis for guidelines and procedures applicable to Article 6. This article applies only to Annex I Parties and, as such, it may be considered a project-based joint implementation/ emissions trading mechanism. Clearly the requirements of Article 17 need to apply to Article 6 where appropriate. **(South Africa)**

191. Eligibility of AIJ projects under Article 6. These are not generically eligible. However, a review may be undertaken and they may be eligible if both the host nation and the sponsoring nation agree to the terms of recognition. These terms may include payment to the host nation for ERUs accrued. **(South Africa)**

192. The AIJ pilot phase was launched to gain experience with international co-operation to implement climate protection projects, in order to inform policy makers (i) in deciding whether to allow joint implementation of climate protection projects for credit and (ii) in developing common methodologies (e.g. for the determination of the environmental additionality of projects). The Conference of Parties, at its first session, decided that "no credits shall accrue to any Party as a result of greenhouse gas emissions reduced or sequestered during the pilot phase from activities implemented jointly". However, the question arises as to whether projects launched under the AIJ pilot phase could subsequently qualify as joint implementation or CDM projects (note that this does not imply retroactive crediting of emissions reductions achieved during the pilot phase). This issue is included in the work programme for the mechanisms under the Kyoto Protocol. **(Switzerland)**

193. Switzerland would like to discuss with other delegations the advantages, and in particular, any possible disadvantages, that would arise if projects begun as AIJ under the pilot phase could qualify under Article 6 or Article 12 (on the condition that such projects meet all of the requirements of the relevant article, including approval by all Parties involved, and that credits would only be allowed from the time that joint implementation or CDM approval occurs). Without the expectation that AIJ projects might eventually qualify for credit under joint implementation or CDM, there is a concern that the private sector will have no incentive to undertake pilot projects now and that host countries will, therefore, have only very limited experience before the launch of the CDM and/or respectively, joint implementation. It seems to us in the best interest of all countries to explicitly allow AIJ projects to qualify under the Kyoto Protocol mechanisms, not the least because it would be difficult to develop effective rules to actually exclude AIJ projects and the system would discriminate against AIJ projects that may meet all eligibility requirements. **(Switzerland)**

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[6] Text will be provided at a later stage.

Q. Levies

194. AOSIS believes strongly that adaptation surcharges should be assessed against all transactions eligible under the mechanisms of the Kyoto Protocol. The principle of common but differentiated responsibilities, and the obligation in Article 4.4 of the Convention, provide sufficient basis for ensuring that those mechanisms open only to Annex I Parties should share the responsibility of generating adaptation resources. AOSIS believes that the concerns of some Parties that high surcharges will dampen the market's interest in the mechanisms can be answered by agreeing on a range of charges that could be adjusted by the COP/MOP and/or the executive board of the CDM in response to market signals. **(AOSIS)**

195. It would be beneficial and realistic if the collection of funds from certified project activities referred to in Article 12, paragraph 8, concerned all three flexible mechanisms so as to increase the amount available to cover administrative expenses and costs of adaptation of vulnerable developing countries. Adaptation projects in the least developed countries will require substantial investments beyond the capacity of the CDM alone. With that in mind, adaptation and administrative expenses should be funded by a levy of 15 per cent per mechanism. The Parties should be guided in drawing up projects by criteria consistent with the objectives set out in Article 12, paragraph 2. **(Burkina Faso)**

196. In consideration of Article 12.8, sources of funds for adaptation projects should include the following:

(a) A tax on each of the three mechanisms - joint implementation, CDM (Article 12) and emissions trading (Article 17) to fund adaptation projects. (This would foster sustainable development in developing countries, particularly in Africa.)

(b) A tax on bunker fuels; and

(c) A non-compliance fine on Annex I Parties. **(The Gambia)**

197. All of the Kyoto Protocol mechanisms: emissions trading, joint implementation and clean development mechanism, shall contribute with a percentage of the transaction values to meet the adaptation needs of developing countries These contributions will be applied exclusively to finance adaptation costs resulting from the adverse effects of climate change in developing countries, prioritizing imminent damages to human lives (such as famines and epidemics,) and assistance operations (rescues operations of unexpected magnitude or character of climate phenomena victims). **(Peru)**

198. In order to create a level playing field, Sierra Leone thinks that it is of utmost importance that a fee be levied, not only on the CDM but also on emissions trading and joint implementation, and put into an adaptation fund. This fee could be part of the administrative fee that accrues for writing or trading a CER or ERU, or whatever is decided to be a tradable unit. An adaptation fund should be established. **(Sierra Leone)**

199. Lack of authority to impose a charge for adaptation. This is not an issue under Article 6 if the CDM is adequately structured to cater for adaptation projects and the appropriate level of funding being allocated to these projects in all developing countries. **(South Africa)**

200. Togo suggests that the adaptation fund should be extended to all the flexibility mechanisms proposed under the Kyoto Protocol. **(Togo)**

201. Uganda proposes that adaptation be funded from the following:

(a) Adaptation costs be met from all the three flexible mechanisms of the Kyoto Protocol;

(b) A portion of monies accruing from measures taken by Annex I Parties to mitigate GHG emissions be channelled to meet adaptation costs;

(c) Non-compliance penalties; and

(d) Voluntary contributions from Parties, multilateral agencies and other sources. **(Uganda)**

R. Implementation

202. Article 6.4 states that "if a question of implementation by a Party included in Annex I of the requirements referred to in this Article is identified in accordance with the relevant provisions of Article 8, transfers and acquisitions of emission reduction units may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved." **(Australia et al.)**

203. With regard to the implementation of Article 6.4, further elaboration is required. In particular, a clear, objective and expeditious process to identify "a question of implementation" and to resolve an "issue of compliance" needs to be established. **(Australia et al.)**

S. Supplementarity

204. AOSIS believes that the use of mechanisms by any Annex I Party has to be supplemental to its domestic action. Quantitative and qualitative rules and guidelines on supplementarity may be developed in the context of the elaboration of Articles 2 and 3.2. These binding commitments on policies and measures and on demonstrable progress would be seriously undermined if Annex I Parties were allowed to fulfil their obligations under Article 3 primarily through extraterritorial means. **(AOSIS)**

205. Rules on supplementarity should be developed in the context of the articles above and be subject to the reporting, in-depth review and non-compliance procedures under the Protocol, which should be empowered to suspend the right of a Party to access mechanisms in

circumstances where it has failed to demonstrate that its domestic efforts constitute the primary means of achieving its quantified emission reduction limitation commitments. **(AOSIS)**

206. AOSIS is concerned, however, that an over-dependence of certain Annex I Parties on the use of the Kyoto Protocol mechanisms to achieve their commitments may undermine their ability to fulfil commitments domestically, to demonstrate supplementarity, and to undertake more ambitious commitments in the next round of negotiations. **(AOSIS)**

207. With regard to the principle of supplementarity, AOSIS believes that the legal and political character of any regional economic integration organization seeking special treatment under the Protocol must be assessed separately, particularly with regard to the division of climate-relevant competencies between the central authority and its member States. **(AOSIS)**

208. AOSIS strongly supports the concept of supplementarity and welcomes any proposals as to how it might be determined on either a quantitative or qualitative basis. **(AOSIS)**

209. It must be ensured that CDM project activities shall be supplemental to domestic actions by developed country Parties to meet part of their quantified emission limitation and reduction commitments. **(China)**

210. On this principle, the Kyoto Protocol has clear provisions relating to the three mechanisms. Specifically, regarding emissions trading, Article 17 stipulates: "Any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments" under Article 3. Therefore, concrete ceiling for the total amount of overseas offsetting acquired from the three mechanisms should be defined quantitatively and qualitatively. (See **Elements** No. 9 under Article 12, No. 19 under General, No. 6 under Article 6, and No. **8** under Article 17 - as listed in the **"Work Programme"**, annexed to COP decision 7/CP.4. (FCCC/CP/1998/16/Add.1). **(China)**

211. [...][7] **(Germany et al.)**

212. At no time should Annex I Parties be allowed to fulfil their obligations under the Kyoto Protocol only by using facilities provided in other countries. The use of flexibility mechanisms by Annex I Parties has been supplemental to domestic ones. **(Mauritius)**

213. The use of mechanisms through the countries listed in Annex B shall be supplemental to their domestic action. **(Sierra Leone)**

214. Supplementarity to domestic actions (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria). The mechanisms should be supplemental to domestic action; however, the extent of this supplementarity is dependent on the conditions attached to the mechanisms. If developing nations are able to bank credits and activities for long-term application, the mechanisms can be used to a major extent. Failing this, the major

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[7] Text will be provided at a later stage.

benefits go to developed nations and the use of mechanisms should be constrained. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such, some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism itself should provide a percentage for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms. **(South Africa)**

215. Lack of authority to elaborate "supplemental to domestic actions"; inadvisability of doing so. It is desirable to include domestic action to avoid exploitation of short- term opportunities, especially in economies in transition, in exchange for long- term high costs. **(South Africa)**

216. Uganda is a least developed country and among the most vulnerable to the adverse effects of climate change. It, therefore, strongly believes that reduction of greenhouse gases under the Convention and the Protocol must be done primarily within Annex I Party territories. In this regard, offshore activities leading to reductions or avoidance of GHGs must be supplemental. Levels of domestic reductions and offshore reductions or avoidance must be quantified. Also due attention must be paid to the quality of credits resulting from offshore reduction, avoidance or sequestration. Discussions of the quantification should proceed in parallel with the discussions on design of the flexible mechanisms. **(Uganda)**

T. Issues related to compliance

217. Rules on supplementarity should be developed in the context of Articles 2 and 3 and subject to the Protocol's reporting, in-depth review and non-compliance procedures, which should be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emissions reduction limitation commitments. **(AOSIS)**

218. AOSIS wishes to express strong support for the establishment, under Article 18, of "appropriate and effective procedures and mechanisms to determine and to address cases of non-compliance with the provisions of this Protocol, including through the development of an indicative list of consequences, taking into account the cause, type, degree and frequency of non-compliance." Included among these consequences must be the authority to suspend the ability of any non-complying Party to benefit from participation in the mechanisms. **(AOSIS)**

219. AOSIS believes the mechanisms can play a central role in promoting compliance by offering cost-effective means of emissions reductions, by encouraging the transfer of financial resources and technology, and by engaging the private sector and developing countries in the business of reducing greenhouse gas emissions. **(AOSIS)**

220. Conditioning the access of Parties to the benefits of participating in the mechanisms on their demonstrating compliance with Protocol obligations will also provide a powerful incentive. **(AOSIS)**

221. It is assumed that there would be a short period after the end of a commitment period during which Parties would have the opportunity to cure any overage, e.g., through acquiring units of assigned amount. One issue is whether, after that short period, a Party whose emissions exceeded its assigned amount for the previous commitment period should retain its eligibility to participate in emissions trading under Article 17 in the subsequent commitment period. **(Australia et al.)**

222. These end-of-commitment-period issues merit further consideration, taking into account discussions on the overall non-compliance regime. **(Australia et al.)**

223. Compliance-related issues. These are the same for all mechanisms and include: Emission reduction quantification; Life times of credits; Ownership, trading, banking; Application of credits against targets. **(South Africa)**

224. Consequences of non-compliance – to be covered according to procedures and mechanisms defined under Article 18. **(South Africa)**

225. Process for assessing compliance with Articles 5 and 7 – to be carried out according to procedures and mechanisms defined under Article 18. **(South Africa)**

226. For each of the three Kyoto Protocol mechanisms, there is a need for independent validation/certification. Under Article 6, each project must be validated to ensure that it meets the project eligibility criteria and has a baseline that meets agreed standards, and the resulting emission reductions must be certified after they have occurred. The same basic validation/certification requirements generally hold true for Article 12 as well. Under Article 17, the national systems for the preparation of emission inventories must be validated[8] to conform with the guidelines to be decided upon by the COP/MOP and, in the case that legal entities are authorised to participate in emissions trading, national systems for accurate tracking and accountability of trading activity by legal entities must also be validated to ensure that they meet the requirements to be specified under the rules for Article17. Furthermore the amount of excess PAA units available to a Party must be certified – and certificates issued – annually (assuming a post-verification trading system as described below). **(Switzerland)**

227. Building on existing know-how and institutions, the generally local independent "operational entities" (borrowing the terminology from the Kyoto Protocol for the CDM) could be accredited to perform the necessary validations/certifications by existing national or regional accreditation authorities designated by the COP/MOP. In the case of the CDM, Article 12.5

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[8] It is essential for the credibility of the emissions trading system that national emission inventory systems/data be validated by an accredited independent instance. Otherwise there is huge room for falsification of inventory data, since uncertainties of 50-100 per cent or more are not uncommon.

states that the operational entities are to be designated by the COP/ MOP, but this "designation" could occur via national/regional accreditation authorities to avoid an administrative bottleneck. We would welcome discussion of this and other possible approaches at the upcoming sessions of SBSTA/SBI. For the other mechanisms, operational entities are not explicitly mentioned, but will be needed if validation/certification is required, as we propose above. **(Switzerland)**

228. Operational entities must be accredited by designated national/regional authorities to perform validation/certification on the basis of a set of protocols (or standards) for validation or certification. These validation and certification protocols must by adopted by the COP/MOP. In the case of emissions trading and joint implementation, the secretariat might be given the task of actually issuing certificates based on the certification report by the operating entity, or this task might be performed under the CDM by the executive board. **(Switzerland)**

229. If such a system is established, it would only apply to those Parties that choose to engage in the Kyoto Protocol mechanisms, and would have to be linked to the entire system for measuring, reporting, review and compliance under the Protocol (including the expert review process under Article 8, which applies only to Annex I countries). The review process in Article 8.1 and the expert reviews under Article 8.2 might be used to spot check the performance of the operational entities acting in those Annex I Parties engaging in joint implementation, CDM or emissions trading. The Article 8 reviews, however, could not replace the verification/certification process for the Kyoto Protocol mechanisms. **(Switzerland)**

U. Periodic review

230. COP/MOP shall review the guidelines governing joint implementation as set out in our submission on joint implementation. The first review shall be carried out no later than the year 2012. Further reviews shall be carried out periodically thereafter. **(Germany et al.)**

231. Any revision of these guidelines shall take effect in the commitment periods subsequent to that of their adoption. **(Germany et al.)**

232. Guidelines for review of implementation of Article 6 by expert review teams – it is proposed that the same process as applied to national communications be used. **(South Africa)**

233. Process for reviewing Article 6 according to Article 8.4 – apply the same process as for reviews of national communications. **(South Africa)**

V. Capacity-building

234. Participation in any of the mechanisms under the Kyoto Protocol will require substantial capacity in both the 'transferring' and the 'acquiring' countries, particularly in developing and least developed countries. Experience from the AIJ pilot phase, and from the domestic use of similar 'mechanisms', demonstrates that sophisticated means of monitoring, reporting and verifying emissions will be required of any country wishing to host or transfer emissions reductions. **(AOSIS)**

235. AOSIS believes that the existence of this capacity must be demonstrated as a prerequisite for participating in the mechanisms, and resources should be made available to eligible Parties to meet the costs of building such capacity. **(AOSIS)**

236. AOSIS further considers that it is necessary to establish a specific mechanism to assist developing countries with the capacity-building required for these countries to be able to participate in the CDM. Such a mechanism should be established well in advance of the implementation of the Kyoto Protocol mechanisms. **(AOSIS)**

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